

CITY OF TORRANCE
DEFERRED COMPENSATION PLAN COMMITTEE
DECEMBER 15, 2010 MEETING MINUTES

Members Present:

Ms. Dana Cortez – City Treasurer
Ms. Elaine Winer – HR Director
Mr. Eric Tsao – Finance Director
Mr. John Fellows – City Attorney
Ms. Mary Giordano – Assist. City Manager

Guests:

Ms. Usha Archer – Great-West Retirement Services
Ms. Carol Say – Great-West Retirement Services

Committee Consultants:

Mr. John Campbell and Ms. Rachel Fequiere - Benefit Funding Services Group
("BFSG")

CALL TO ORDER

A special meeting of the Deferred Compensation Committee (the "Committee") was called to order by Dana Cortez on December 15, 2010 at 1:30 pm. The meeting was intended to review the third quarter 2010 City of Torrance deferred compensation plans (the "Plans") performance report prepared by BFSG, the Plans' Investment Policy Statement and recent legislative updates.

INVESTMENT MEETING

I. APPROVAL OF SEPTEMBER 30, 2010 MEETING MINUTES

A motion was made to approve the minutes. The motion was seconded and unanimously voted as approved.

II. RETIREMENT PLAN QUARTERLY INVESTMENT REVIEW

Mr. Campbell reviewed the Retirement Plan Quarterly Investment Review (the "Report") prepared by BFSG. His discussion included a review on current economic and market activity, and a qualitative and quantitative discussion on the funds offered in the Plans. He noted that the financial sector has been the worst performing sector in the S&P 500. As such, funds with an overweighting in financials were more than likely performance laggards compared to their respective peers.

Of the twelve funds in the 457 Plan A and 401(a) Deferred Compensation Plans, which are evaluated using the Investment Policy Statement quantitative evaluation methodology, seven were ranked as "outperform" against their relative peers, four were ranked as "perform," and one (Artisan International) was ranked as "underperform." The methodology includes criteria such as performance, risk-adjusted performance, style consistency, and cost.

Noteworthy funds for the quarter included the Torrance Stable Value fund, which holds approximately 51% of the 457 Plan A and 401(a) Deferred Compensation Plans' assets. The market-to-book remains over 100, and the fund continues to be very competitive relative to the peer group. Mr. Campbell also reviewed the Dodge & Cox Stock fund, which continues to post some lagging performance on a 3 and 5-year basis due to having been over-weighted in financials in 2008; Growth Fund of America, which missed the market rally due to an overweighting in cash in 2009 continues to post short-term lagging performance; Columbia Small Cap Value II, which continues to lag on a year-to-date, one, and 3-year basis due to overweighting financials; and Artisan International, which Mr. Campbell noted as being a fund offered by a strong company that utilizes only experienced managers, though has also struggled on a short-term basis relative to its peers due to overweighting financials.

At the Plan-weighted level, the 457 Plan A and 401(a) Deferred Compensation Plans outperform the equally weighted custom active and passive benchmarks on a 3-month, one, 3, and 5-year basis. The

Plans take slightly more risk, as measured by 3-year standard deviation, and offer a competitive expense ratio, at 58 basis points versus the category average at 77 basis points.

Mr. Campbell reviewed the 457 Plan B (part-time plan). A review of the various funds' ranking demonstrate that six of the 15 funds ranked as "outperform" against their relative peers, four were ranked as "perform," and four were ranked as "underperform." The funds ranked as "underperform" are American Century Ultra, Oppenheimer Capital Appreciation, Columbia Mid Cap Value, and Artisan International.

The Oppenheimer Capital Appreciation fund remains on the Watch List due to a change in the fund's management and lagging performance. At the next Committee meeting, the fund will be reviewed to determine if performance has improved, or whether it should be eliminated it and possibly merged it into one of the other three large cap growth funds offered in the Plan.

Other noteworthy funds included Davis NY Venture, which has historically over-weighted financials. The fund previously maintained approximately 60% of the assets in the financial sector, but is now down to about 30%. The fund is performing as would be expected based on its philosophy and current market conditions.

Also noteworthy is the American Century Ultra fund, which lags its peers on a long-term basis but has shown improvement over the short-term based on a new management team and lower turnover approach; and Columbia Mid Cap Value, which lags significantly on a 3-year basis due to an overweighting in financials and poor stock picking.

III. DISCUSSION ITEMS

The Investment Policy Statement, which had originally been circulated earlier this year, was redistributed for comments or questions the Committee may have relative to the way in which the funds are discussed at each meeting. Comments are to be collected prior to, for discussion at, the next meeting.

IV. LEGISLATIVE UPDATES

Updates regarding the new participant fee disclosure rules, which are applicable to ERISA plans, were briefly discussed. As these updates are not applicable to non-ERISA plans (though may be adopted as "best-practice" for non-ERISA plans wishing to implement), the Committee asked that the discussion be tabled until the next meeting. At such time, Great West will be able to provide additional information regarding how they intend to support the new rules for plans wishing to implement.

V. ADJOURNMENT

The Deferred Compensation Committee meeting adjourned at 2:25 pm.